

VZCZCXYZ0019
RR RUEHWEB

DE RUEHMN #0121/01 0621623
ZNY CCCCC ZZH
R 031623Z MAR 09
FM AMEMBASSY MONTEVIDEO
TO RUEHC/SECSTATE WASHDC 8847
INFO RUCNMR/MERCOSUR COLLECTIVE
RUEAIIA/CIA WASHDC
RUMIAAA/CDR USSOUTHCOM MIAMI FL
RHEBAAA/USDOE WASHDC

C O N F I D E N T I A L MONTEVIDEO 000121

SIPDIS

FOR WHA/BSC MARY DASCHBACH

E.O. 12958: DECL: 03/02/2019
TAGS: [PREL](#) [PGOV](#) [ECIN](#) [EINV](#) [ETRD](#)
SUBJECT: URUGUAY: PRESIDENT VAZQUEZ TO TRAVEL TO BRASILIA
TO MEET LULA MARCH 10

REF: A. A) BRASILIA 0253
[1](#)B. B) BRASILIA 128

Classified By: CDA ROBIN MATTHEWMAN, FOR REASON 1.4 ((B))

Summary
- - - - -

[1](#)1. (C) President Vazquez plans to travel to Brasilia March 10 for a meeting with President Lula. That summit is expected to produce agreement on several issues, according to FM Gonzalo Fernandez, including commitments to eliminate a longstanding tariff problem between the two countries and to increase the amount of electrical energy flowing from Brazil to Uruguay. Other items on the agenda include moving toward the use of national currencies in the conduct of bilateral trade, the possibility of Uruguay entering into a currency swap arrangement with Brazil (of the type Brazil agreed with the U.S.), and facilitating the entrance of Uruguayan goods into Brazil's production and distribution networks. Many Uruguayans are hoping that the confluence of the positive Lula/Vazquez personal relationship with external circumstances bolstering the Brazil/Uruguay relationship will allow the March 10 meeting to show tangible results. End Summary.

Old Friends
- - - - -

[1](#)2. (U) Uruguayan President Tabare Vazquez will visit Brasilia March 10 for a summit with Brazilian President Lula (we understand from the Brazilian ambassador to Uruguay that Brazil suggested an early date so that the two leaders could coordinate prior to Lula's trip to the U.S.) The two leaders are in regular contact, and this summit will be the fifth such bilateral meeting since Vazquez took office in March [1](#)2005. Included in that series of meetings was Vazquez's first trip abroad as president, when he visited Lula less than a month after taking office. On a less formal basis, Lula and Vazquez also flew together to the northern Uruguayan Department of Paysandu to inaugurate a brewery the day after Vazquez's inauguration. To set the stage for the summit, Minister of Foreign Affairs Gonzalo Fernandez and Minister of Industry and Energy Daniel Martinez traveled to Brasilia February 12 for meetings with their counterparts.

A Likely Agenda
- - - - -

[1](#)3. (C) FM Gonzalez told the Charge February 16 that he had a very productive trip, and that as a consequence the leaders have an ambitious agenda. According to Gonzalez, the ministers agreed in principle to several items: moving toward elimination of the double tariff between the two countries

(so named because often tariffs are applied to a product that enters Mercosur from outside the customs union, with a subsequent tariff as that product travels to another Mercosur country), a problem that has long bedeviled Mercosur members; Brazil will increase electricity transfers to Uruguay from 300MW to 500MW, with immediate effect; and Brazil pledged to assist in an expansion of the electrical grid that connects the two countries (Ref A). (Note: much of the electricity that Uruguay purchases from Brazil must be transferred through Argentina, significantly increasing its cost. End Note.) The electrical grids of Brazil and Uruguay differ in voltage, and require transformers for any direct transfer of electricity. Uruguay plans to fund the purchase and any related infrastructure improvements using the Fondo de Convergencia Estructural de Mercosur (FOCEM), but Argentina has vetoed that idea to date. Any Brazilian assistance would therefore likely take the form of talking Argentina away from that stance.

¶4. (C) The leaders will also discuss other issues, according to MFA officials and reports in the Uruguayan media. Specifically, they will try to develop an export financing program for Uruguay, and make progress toward the goal of using national currencies in bilateral trade. Minister of Economy Alvaro Garcia was quoted as saying that Lula and Vazquez will look at the possibility of Uruguay entering into a currency swap program with Brazil, modeled after the arrangement Brazil has with the U.S. Federal Reserve. Garcia described such an arrangement as providing a cushion to Uruguay's reserves in uncertain times. Vazquez will try to impress upon Lula the importance to Uruguay of Brazilian mining firm Vale do Rio Doce proceeding with a now-stalled large dock construction project in the Department of Soriano.

Vazquez hopes to also bring home a promise of easier access for Uruguayan products into the largest Brazilian production and distribution networks.

Uruguay's Most Important Relationship

¶5. (U) Brazil has been Uruguay's principal trading partner for every year but one during the last decade (Argentina briefly displaced Brazil in 2001). Bilateral trade in 2008 amounted to USD 2.6 billion, with Uruguay in deficit by approximately USD 600 million. Uruguay enjoyed slight surpluses in 2002-2003, but fell into a USD 140 billion deficit in 2004, which has grown each year to date. Uruguay's sale of goods to Brazil worth USD 1 billion in 2008 amounted to 16 percent of Uruguay's exports that year. In comparison, second-place destination Argentina only accounted for eight percent of Uruguay's exports.

¶6. (U) Uruguay does not track inbound investment by country, but Brazil is widely thought to be the largest foreign investor in Uruguay. Brazilian firms have made major investments during the past decade in critical areas of the Uruguayan economy. Purchases of slaughterhouses have given Brazilian firms control over 40 percent of Uruguayan beef exports. Similarly, rice producer SAMAN, Uruguay's number one individual exporter, with over 50 percent of rice exports, is Brazilian. Brazilian Ambev has a monopoly on beer production in Uruguay, and Brazilian firms also have significant interests in Uruguay's growing forestry industry. Petrobras bought Shell's entire network of stations in Uruguay several years ago, and controls natural gas distribution in the country. Significantly, Brazilian development bank BNDES placed its first office outside Brazil in Uruguay.

¶7. (C) Apart from the obvious geographical and commercial factors promoting partnership, there are other reasons why the Brazil-Uruguay relationship is flourishing today. FM Fernandez cited a currently "difficult" Brazilian relationship with Argentina as bringing Uruguay and Brazil closer, and told the Charge that Brazil is having "big problems" with Paraguay over the pricing of Itaipu energy. Considering those factors, the FM continued, turning to

Uruguay is a natural reaction. From Uruguay's perspective, Fernandez said, its current relationship with Argentina means staying close to Brazil is a must.

18. (C) Vazquez has had difficulty convincing Lula to take a role in Uruguay's most contentious and delicate ongoing issues -- the paper mill dispute with Argentina and Uruguay's consequent veto of Nestor Kirchner as UNASUR Secretary General -- so not too many observers here expect progress in those areas. Nevertheless, many Uruguayans believe Vazquez's personal relationship with Lula makes a difference and that the meeting could generate tangible and positive outcomes for Uruguay. For instance, a Vazquez call to Lula was widely credited here with having influenced Lula's decision to rescind measures his government announced February 27 that would have restricted imports (from all over the world, not just from Uruguay) by imposing a mandatory licensing regime on certain products (Ref B). Elimination of the double tariff would provide a significant boost to Uruguay's efforts to position itself as a logistics center for the region, and would be an excellent result for Vazquez. But that problem has plagued Mercosur for so long that few believe it will be resolved anytime soon. Similarly, increasing the flow of electricity from Brazil and beefing up the relevant infrastructure would be a boon, allowing Uruguay to avoid the fee that Argentina now charges to allow Brazilian electricity to flow through Argentina to Uruguay.

19. (C) Still, some insiders are less sanguine about the trip's prospects. Presidential candidate and FA Senator Danilo Astori told the Charge over lunch February 18 that dealings with Brazil always start off well and sound great in the media, but rarely result in any tangible benefits to Uruguay. Astori said he hopes something positive will come from Vazquez's trip, but that he would only believe it when he sees it.
Matthewman